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ECONOMIC TRENDS

1984 MID YEAR REVIEW

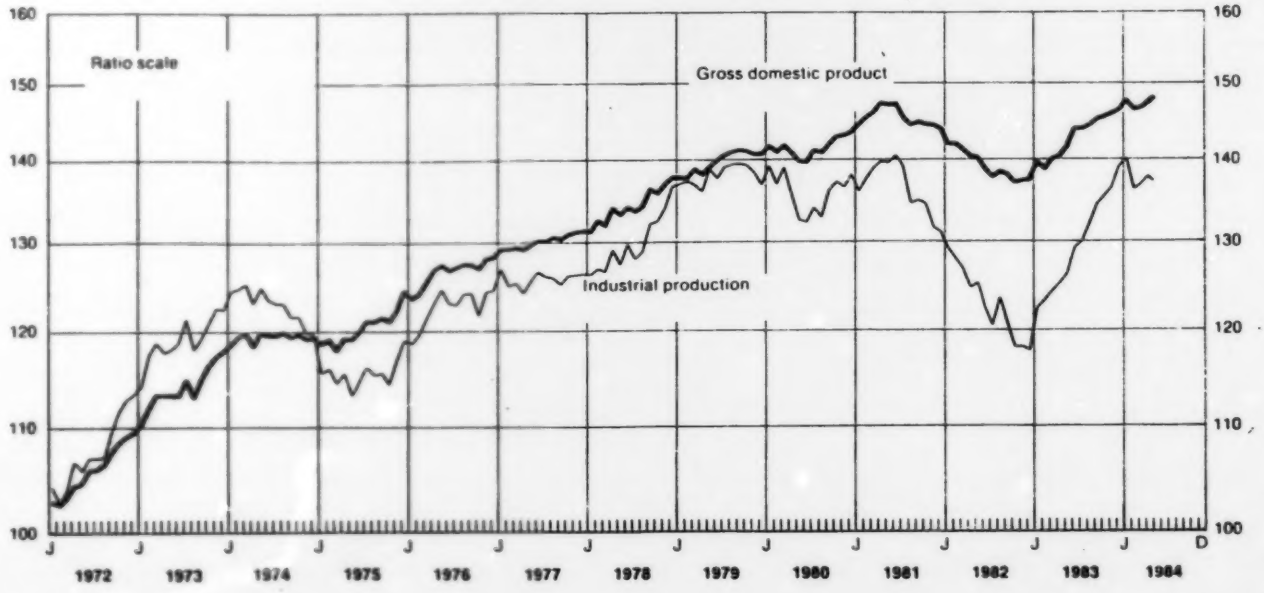
1. Introduction

This issue of Economic Trends provides a description of the economic situation in the first half of the year based upon available statistics on the economy. Growth of the national economy distinctly faltered in the early part of 1984 following the recovery in 1983. Diagram 1 displays Canadian Gross Domestic Product in Constant dollars up to May wherein

Diagram 1

Comparison of Gross Domestic Product with Industrial Production, 1972-1984

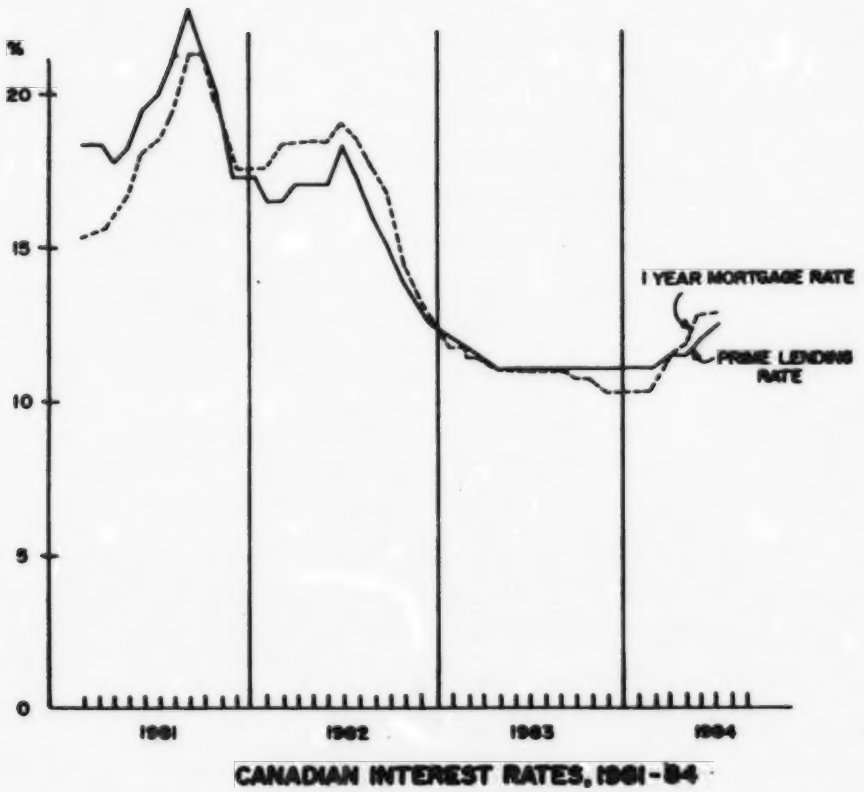
(Seasonally Adjusted Indexes, 1971=100)



one can identify this slippage, which appears particularly noticeable in terms of the value of Industrial Production. Most strength has come from exports to the United States and local consumer spending, while capital formation has been very weak.

The Canadian recovery from the severe recession of 1982 has encountered renewed upward pressure on interest rates in 1984. The behaviour of interest rates is displayed in Diagram 2, which presents statistics on the 1 year Mortgage Rate and the Prime Business Lending Rate. Clearly the stability in interest rates that was present in 1983 has been lost.

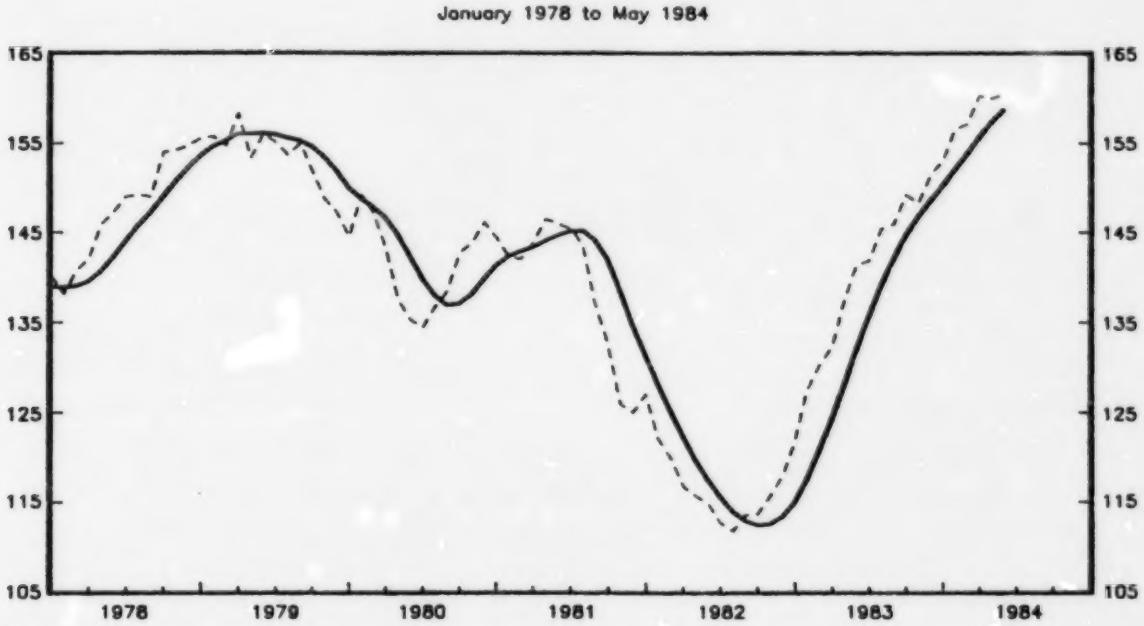
Diagram 2



CANADIAN INTEREST RATES, 1981-84

Unfortunately the upward movement in interest rates may be impacting on consumer spending which had been a source of strength through much of 1984. The latest Canadian Composite Leading Indicator for May reports a general weakening in the economy in view of this. This indicator is portrayed in Diagram 3. The other casualty of the 1984 economic slowdown is the

Diagram 3



Source: Statistics Canada, Current Economic Analysis (13-004E)

value of the Canadian dollar which had been strengthening in 1983. By mid 1984 the Canadian dollar had sunk to 76.37¢ U.S. Movements in the exchange rate are portrayed in Diagram 4.

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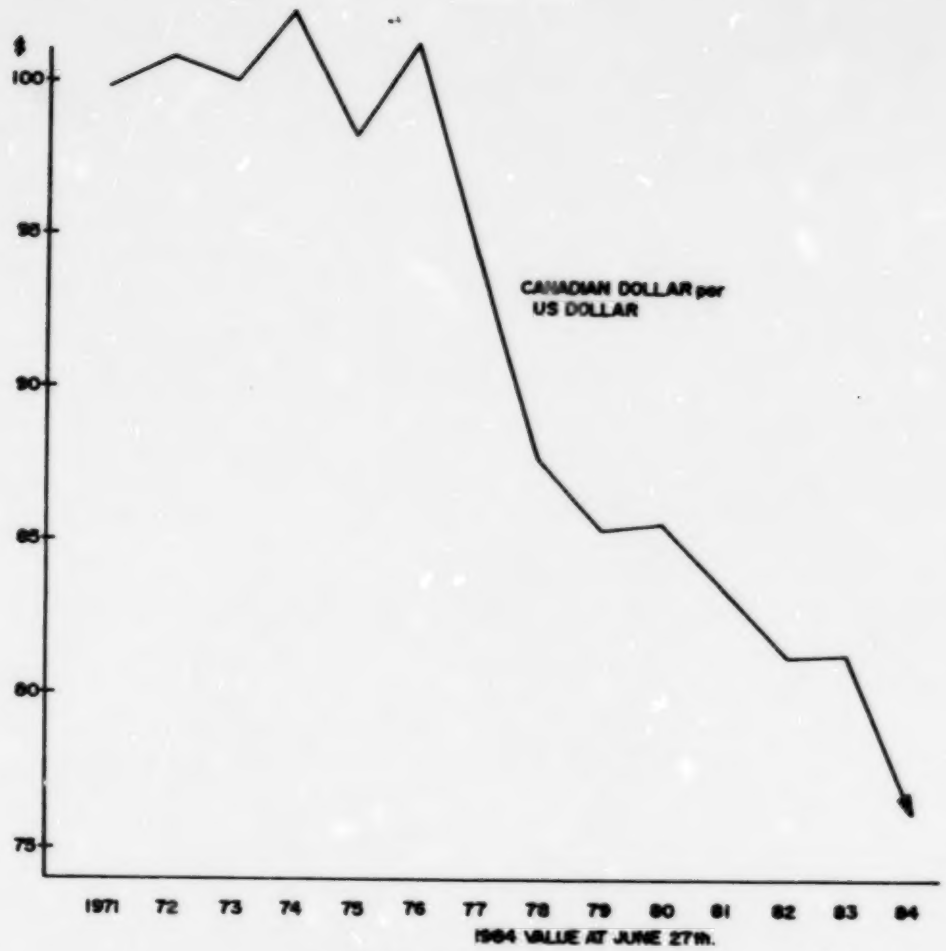
Diagram 4



CANADIAN/US EXCHANGE RATE

2. The P.E.I. economy to mid 1984

(a) Population and Labour Force

The most recent estimate of the province's population for April 1984 is 125,000 and this is 1,400 greater than April 1983, which in turn means that the province has been experiencing some net inmigration. The population 15 years and above averaged 92,000 per month in the first half of 1984, and one can see in Diagram 5 the general gains that have experienced for this group, which have increased somewhat following the slowdown 1979 to 1981. The labour force expanded quickly in 1983 but

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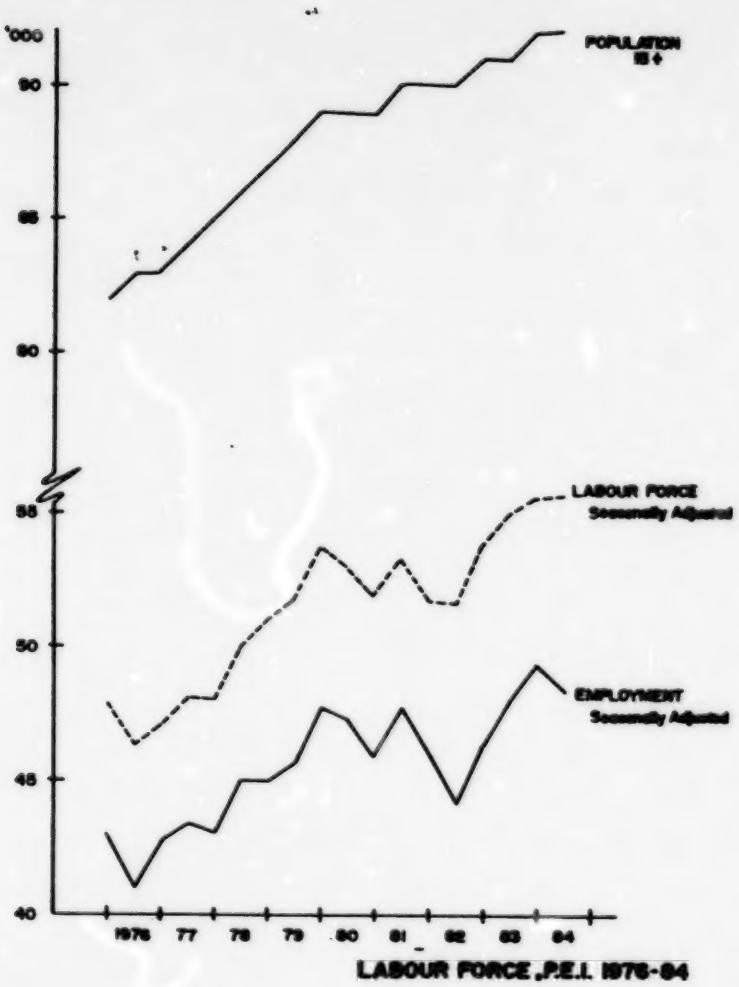
Diagram 5



LABOUR FORCE ,P.E.I. 1976-84

this expansion was arrested in the first half of 1984, when it averaged 55,000 per month. This slowdown in labour force growth was caused by a small decline in the participation rate, relative to its level in 1983. The participation rate averaged 60 per cent in the first half of 1984, compared to 60.2 per cent for 1983 overall.

Labour force growth is closely associated with employment growth, as can be seen in Diagram 5. Total employment averaged 48,000 on a seasonally adjusted basis during the first half of 1984, compared to 49,000 in the second half of 1983. Thus it appears that the slowdown in labour force participation was the result of reduced employment opportunities in the first half of 1984.

.../6

Unemployment increased significantly as a result of this situation, and was particularly severe in April and May both on a seasonally adjusted basis as well as in real terms. During April it was 13.9 per cent on a seasonally adjusted basis and 17.8 per cent unadjusted. This was the second highest unadjusted unemployment rate on record for Prince Edward Island.

(b) Prices, Incomes and Expenditures

Increases in consumer prices have been very moderate in 1984, the Charlottetown - Summerside Index averaging 4.2 per cent in the second quarter. Table 1 displays the June 1983/1984 rates of increase for broad groups and selected items. The leading price increase appear to be for Electricity and Health Care followed by Alcoholic Beverages and Tobacco Products, Gasoline and fuel oil prices appear to have settled down after the major price increases of recent years.

Total wages and salaries earned on P.E.I. increased by 7.8 per cent in the first half of 1984 relative to the first half of 1983. This marks a significant reduction in growth

Table 1

PERCENTAGE INCREASE IN CONSUMER PRICE INDEX, CHARLOTTETOWN-SUMMERSIDE, BROAD GROUPS & SELECTED ITEMS, JUNE 1983-JUNE 1984

All Items	4.2%
Food	4.8%
Meat, Fish	2.5%
Dairy Products	6.0%
Eggs	6.8%
Sugar & Confections	-4.8%
Food purchased for Restaurants	5.8%
Housing	4.6%
Fuel Oil	4.3%
Electricity	13.8%
Furnishings	1.3%
Clothing	0.8%
Transportation	2.6%
Gasoline	3.4%
Health & Personal Care	6.2%
Health Care	12.3%
Reading & Recreation	3.4%
Tobacco & Alcohol	9.2%
Tobacco products	7.8%
Alcohol	9.9%

.../7

by comparison with annual rates of increase in recent years, which were in excess of 10 per cent. This reduction is a combination of weak employment gains, coupled with modest increases in pay. Average weekly wages and salaries per worker for the Industrial Composite increased by only 2.4 per cent January-May 1984 over January-May 1983. This can be compared to recent experiences in Table 2.

Table 2

AVERAGE INCREASE IN WEEKLY WAGES AND SALARIES PER WORKER, INDUSTRIAL COMPOSITE, P.E.I.

1979	1980	1981	1982	1983	Jan.-May 1984
6.6	9.7	8.7	11.4	6.1	2.4 *

* Year over Year

Information on other components of income are very limited at this time. Farm income has been sustained in the first half of 1984 by high cash receipts from the sale of potatoes. However, preliminary statistics on fish landings point to lower incomes from fishing in 1984, following the bumper harvest of 1983. Income from unemployment insurance benefits has become a leading source of income on Prince Edward Island. Total benefits paid January - May 1984 were $53 million. This is approximately equivalent to the average annual value of net farm income on Prince Edward Island 1978-1982! Diagram 6 displays

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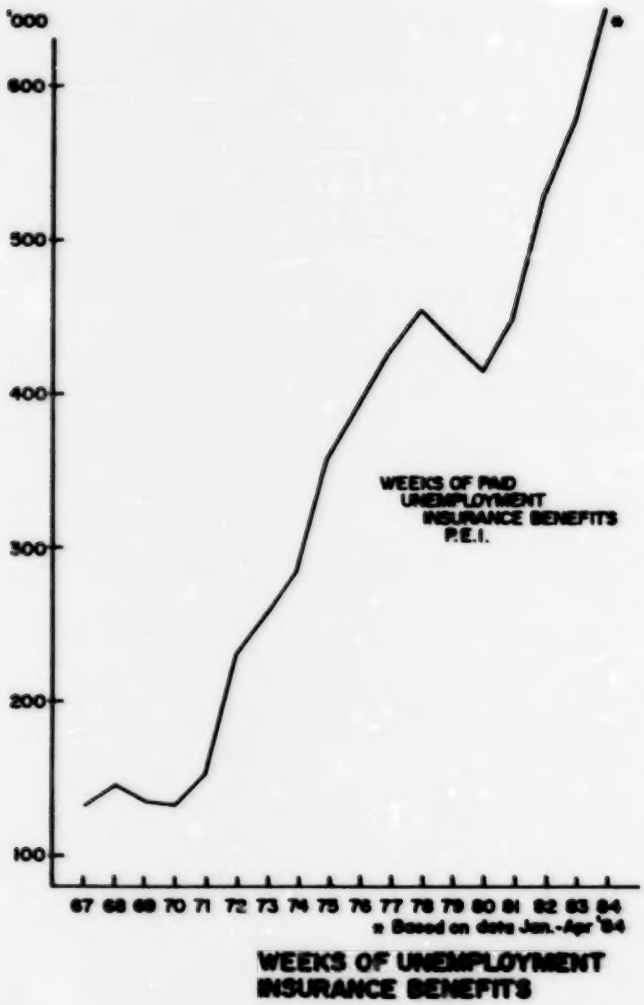
Diagram 6



WEEKS OF UNEMPLOYMENT
INSURANCE BENEFITS

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the number of weeks of paid unemployment insurance benefits for Prince Edward Island 1967-1984, where the striking growth in receipt of U.I. Benefits can be observed. The value of benefits paid is shown in Table 3. While it is not certain whether the rate of increase in paid unemployment insurance benefits that occurred in the first five months of 1984 will

Table 3

UNEMPLOYMENT INSURANCE BENEFITS PAID, P.E.I.

	Value $'000	Percentage Increase	As Percentage of Personal Income
1968	3,695	16.8	
1969	3,887	5.2	1.9
1970	4,199	8.0	1.8
1971	5,094	21.3	2.1
1972	11,210	120.1	3.9
1973	14,357	28.1	4.0
1974	17,995	25.3	4.5
1975	26,299	45.8	5.3
1976	31,782	21.9	5.9
1977	38,808	19.8	6.5
1978	45,500	18.8	6.5
1979	43,320	-4.8	5.7
1980	46,482	7.3	5.3
1981	52,944	13.9	5.4
1982	69,025	30.4	6.3
1983	81,728	18.4	6.6
Jan.-May 1983	44,116		
Jan.-May 1984	53,007	20.2	

Source: Stats Can. 73-001.

be sustained throughout the year, clearly this income source has again become a leading component of income growth on Prince Edward Island.

Retail activity has averaged $40,406,000 per month in the first half of 1984, and compares with $34,863,000 in the first half of 1983, an increase of 15.9 per cent. This compares with +14.4 per cent for 1983 as a whole, and is shown for the

.../10

past six years in Table 4." In constant dollars retail spending

Table 4

PERCENTAGE GROWTH OF RETAIL TRADE, P.E.I.

	1978	1979	1980	1981	1982	1983	1984
Retail Sales Current $	+18.2%	+7.4%	+2.1%	+9.0%	+2.9%	+14.4%	+15.9 First ½
Increase in Consumer Prices	+8.1%	+8.6%	+10.4%	+13.5%	+9.5%	+5.1%	+4.5%
Increase in Retail Trade after Prices	+9.3	-1.1%	-7.5%	-4.0%	-6.0%	+8.8%	+10.9

growth of 10.9 per cent in 1984 represents considerable expansion over the rate of expansion of 1983. This may be surprising in light of the apparent slowdown in the economy generally, but it appears that a certain amount of "catching-up" is in progress after the significant declines in retailing of 1979-1982. This is particularly noticeable with respect to the purchase of new automobiles. New motor vehicle sales in the first half of 1984 number 590 per month which can be compared to 608 in the first half of the peak car buying year 1979, and 318 in the first half of 1982.

Retailing and expenditures on services generally have also been aided by a somewhat improved tourist picture, although figures to June 30 do not reflect the peak tourist months. Tourist visitation was up by 2.8 per cent May 15-June 30, 1984, compared to this period the previous year.

3. Industrial Activity

The brightest spot in the economy in the first half of the year has undoubtedly been agriculture although this improvement is narrowly based in potatoes, and to a lesser degree, dairy products. Total farm cash receipts January-June valued $108,049,000, an increase of 21.3 per cent over the first half of 1983, and was very close to the record $110,630,000 recorded in the first half of 1981. Cash receipts from the sale of potatoes July 1983-June 1984 were $87.4 million, which can be compared to $86.2 million for the

.../11

same period 1980-1981, which covers sale of the previous record value potato crop on Prince Edward Island. Thus it appears that the 1983 potato harvest has established a new record in terms of value for the Province. Statistics Canada estimates the area planted in potatoes in 1984 at 72,000 acres, which itself is a historical high for the Province. Unfortunately the other major components of agriculture have not fared so

Table 5

% CHANGE IN FARM CASH RECEIPTS

JAN-JUNE 1984/1983

Potatoes	+73.8%
Total Crops	+42.2%
Cattle	-35.5%
Hogs	+ 1.2%
Dairy Products	+ 5.8%
Livestock & Products	- 7.6%
Total Cash Receipts	+21.3%

well, with a particularly severe downturn in the value of cattle sales at -35.5%. The volume of Prince Edward Island cattle slaughterings at Atlantic plants has been running about 3 per cent below the pace of 1983. Hog slaughterings are up by approximately 13 per cent in terms of volumes, but their total value is only 1.2 per cent above that of 1983. This is indicative of the persistent downward pressure on pork prices in 1984. The pace of hog slaughterings in the first half of 1984 is at an all time high and reflects the record sized herd at 121,000 pigs on Prince Edward Island farms both January and April 1984. The value of dairy products increased by 5.8 per cent and this largely reflects price increases for milk and cream. The volume of farm sales of milk and cream on Prince Edward Island increased by 2.2 per cent January-May 1984 compared to January-May 1983.

Statistics on fish landings to the end of June indicate a significant reduction in both the volume and value of the catch compared to 1983. The overall volume was down 18.1 per cent, and the value 20 per cent. In part this reduction is due to the extraordinary size of the fish harvest in 1983, and the total value of $21.0 million for the January-June 1984

should also be compared to $19 million for this period in 1982. The lobster harvest for the early season (to July 12), at 10.5 million pounds would still rank as one of the highest on record.

Table 6

LOBSTER LANDINGS, JANUARY-JUNE/JULY *

	1980	1981	1982	1983	1984
Pounds	9,389,477	8,964,265	8,370,261	12,449,856	10,485,559
Value $	12,283,416	13,446,388	16,790,522	24,134,705	17,795,646

* To the end of the May-June season, which was extended into July in some years because of late starts.

The value of manufacturing shipments in the first half of 1984 has been marginally less then that recorded in the first half of 1983, at $134.9 million. This sector is highly dependent upon Fish, Vegetable, Dairy and Meat Products. This Food and Beverage sector recorded a 4.6 per cent decline in the value of shipments in current dollars in the first half of 1984. It has been heavily influenced by the partial closure of Canada Packers, the Island's largest meat processing plant, as well as the reduced size of the fish harvest. Declining employment in manufacturing is one of the major factors behind the overall poor employment picture on Prince Edward Island in the first half of 1984.

The Mid-Year Investment Outlook for Public and Private Investment on Prince Edward Island indicates that the total value of construction, both new and repair, on Prince Edward Island in 1984 is about 1 per cent less than in 1983, in current dollars. Excluding housing, the value of new construction intentions for Prince Edward Island in 1984 value $77.9 million, which is significantly less than the $85.9 million estimated for 1983. The value of residential building permits January-July is up by 10.9 per cent over the same period in 1983 with sharp increase May-July. Yet housing starts in the first half of 1984 numbered only 247, compared with 288 in the first half of 1983. Thus it appears that housing construction will pick up in the second half of 1984.

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With respect to the services sector of the Prince Edward Island economy there are limited data available. The month statistics on Restaurants, Caterers and Taverns indicate average monthly sales of $3.1 million in the first half of 1984, compared to $2.8 million in these months in 1983, a year of rapid gains for this sector. Employment in services appears to continue to make modest gains in 1984, averaging 16,200 per month. The federal government service on Prince Edward Island numbered nearly 3,300 in the first part of 1984 as the final Veterans Affairs positions moved to Charlottetown.

4. Summary and Conclusions

The recovery from the 1982 recession in Canada that was in process in 1983 distinctly slowed in the first half of 1984. High interest rates appear to have retarded investment intentions, and housing construction in particular. Capacity utilization rates remain low, and unemployment high. Retail spending on Prince Edward Island has increased at approximately the same pace as in 1983 despite a distinct slowdown in growth of incomes and zero growth in employment. Sizeable gains to the value of unemployment insurance benefits paid and farm incomes are leading factors in income growth as growth of labour income has noticeably slowed. Inflation continues to trend downwards.

Looking further ahead, the general outlook for Canada in 1984 increasingly appears to be one of continued sluggish growth. The second quarter growth of Gross National Product in Constant dollars was only 0.7 per cent, the same modest growth as in the first quarter. Many industries remain inhibited by low capacity utilization, sluggish domestic demand and weak balance sheets.

For Prince Edward Island the picture is not dissimilar, although for somewhat different reasons. The recovery in 1983 was particularly strong and was bolstered by an unusually large fish harvest, high potato prices and the movement of D.V.A. to Charlottetown. Stable interest rates encouraged consumer spending, and the federal housing assistance program boosted housing in the early part of 1983. These factors are not now present in terms of sustainable growth.

Two bright areas for the second half of the year are tourism and construction. The former is helped by a particularly good season in terms of weather, combined with the impact of the Mill River Resort and the Hilton Convention Centre. Housing starts should pick up in the second half of 1984 if the building permit data are any guide. In addition, reconstruction of

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the Charlottetown Airport and construction of the Atlantic Veterinary College are to commence shortly, as are several smaller provincial projects. Despite the difficulties encountered in some of the Island's larger manufacturing plants, the indications are that smaller plants are healthy and in some instances expanding. The strong gains in retailing will likely moderate when the "catching up" process has been complete, in light of general conditions.

Statistics on employment for July and August point to improvements in the second half of 1984 after a disappointing first half.